



## USFRCS MEMORANDUM NO. 91

**TO:** Administrators of School District, University, and Community College  
Sponsored Charter Schools

**FROM:** Laura Miller, Office of the Auditor General  
Lyle Friesen, Arizona Department of Education (ADE)

**DATE:** April 30, 2012

**SUBJECT:** Charter School Audits

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This Memorandum provides guidance on audit requirements only for charter schools sponsored by school districts that are not included in the sponsoring school district's audit and charter schools sponsored by universities and community college districts. The State Board for Charter Schools provides guidance on audit requirements for charter schools sponsored by the State Board for Charter Schools and the State Board of Education. Please see the Board's Web site [www.asbcs.az.gov](http://www.asbcs.az.gov) for audit requirements applicable to those schools.

Arizona Revised Statutes (A.R.S.) §15-914 requires all charter schools to have an annual audit. For schools organized as governmental and not-for-profit entities, the audit may need to be a single audit in accordance with the federal *Single Audit Act Amendments of 1996*. All schools are also required to have their audit firm complete the applicable compliance questionnaire. Schools should refer to the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS), §VIII, Audit Requirements, for more information on these audit requirements.

Schools must submit audit reports to the ADE Audit Resolution Unit, other state grantor agencies, and the Office of the Auditor General within 9 months after fiscal year-end. In addition, one copy of the compliance questionnaire must be submitted to the Office of the Auditor General and ADE. For single audits, schools must also submit the audit reports and data collection form to the Federal Audit Clearinghouse within 9 months after fiscal year-end or 30 days after the reports are issued, whichever is sooner.

If a school is exempt from complying with the USFRCS, the audit firm must complete the enclosed Legal Compliance Questionnaire. For schools that are not exempt from the USFRCS, the audit firm must complete the USFRCS Compliance Questionnaire. Schools requiring the USFRCS Compliance Questionnaire should contact the Office of the Auditor General for further guidance.

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require audit contracts to be approved by the Office of the Auditor General. A school can choose to use an engagement letter rather than prepare a contract. **A copy of the proposed contract or draft engagement letter must be submitted to**

**the Office of the Auditor General for approval before the contract is signed and any audit work begins. The Office of the Auditor General prefers that proposed contracts or draft engagement letters be submitted by e-mail to [asd@azauditor.gov](mailto:asd@azauditor.gov).**

Audit contracts or engagement letters must include or address the following: type of audit to be performed, fiscal year(s) being audited, report submission date(s), completion of the appropriate compliance questionnaire, cost(s), appropriate retention of records and access to documents (including availability of those records to the Office of the Auditor General and ADE), and language that changes in work must be approved by the Office of the Auditor General prior to the performance of work.

Whether a school contracts for a 1-year audit with the option to renew, or a multi-year audit without an option to renew, the cost for each year should be clearly specified in the original contract. For contracts with an option to renew, each year that the renewal option is exercised, the school should send a letter notifying the audit firm that the school will be renewing the contract and a copy of that letter must be submitted to the Office of the Auditor General. The renewal letter should include the type of audit to be performed, the year(s) for which the contract is being renewed, and the price as stated in the audit firm's original proposal. Schools subject to the School District Procurement Rules may contract with an audit firm for up to 5 years, unless the governing board determines in writing that a contract of longer duration would be advantageous to the school.

Changes to the scope, character, or complexity of the audit work may be negotiated if it is mutually agreed by the audit firm and school that changes of this nature are desirable and necessary. **Such proposed amendments must be authorized in writing by the school and approved by the Office of the Auditor General prior to the performance of work.**

A.R.S. §§15-914(E) and 41-1279.21(A)(4) also require the Office of the Auditor General to ensure that completed audits are conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133, if applicable; and the minimum audit standards prescribed by the Office of the Auditor General.

Accordingly, the Office of the Auditor General reviews the audit reports and may review selected audit working papers of audit firms performing charter school audits. Such review is to determine the quality of technical performance and adherence to the cited standards and OMB Circular No. A-133, if applicable, and to determine whether the audit firm met the minimum audit standards prescribed by the Office of the Auditor General for completing the compliance questionnaire. If it is determined that an audit firm has frequently not met these standards or the requirements of OMB Circular No. A-133, the Office of the Auditor General may disapprove audit engagements.

If you have any questions or need assistance, please contact the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or ADE School Finance at (602) 542-5695.